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24 APR 1984

MEMORANDUM FOR: Executive Officer to the DDA

FROM:

Director of Security

STAT

SUBJECT: ADP Acquisition Policies

REFERENCE: Memo to DDA from Comptroller;
Dated: 30 March 1984;
Subject: same

1. This memorandum contains information regarding ADP equipment now rented by the Office of Security. Also presented is an assessment of the House and Senate Appropriation Committees' proposed ADP Acquisition Policies on the Office of Security's programs.

2. A review of the Office of Security's ADP equipment inventory shows that only a small number of IBM punched card equipment is being rented at a cost of approximately \$37K per year. This equipment is used to exchange information between the Security Records Division and

Initiatives are currently underway to replace this equipment by the end of FY-84. On-line terminal access to the DIS database and an electronic interface to the Security Information Management System (SIMS) are currently being built.

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3. The Office of Security generally adheres to the ADP Acquisition Policies presented by the House and Senate Appropriations Committees. Office of Security programs would not be affected by the policies proposed in the reference. 1 1

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OPTIONAL FORM 41 (Rev. 7-76)
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bud 37

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

ADP Acquisition Policies

FROM:

EO/DDA
7D18 Hqs Bldg.

EXTENSION

NO.

DDA 84-0953

STAT

DATE

2 April 1984

STAT

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. D/Communications
2B072. D/Data Processing
2D0105 Hqs3. D/Finance
616 Key4. D/Information Services
1206 Ames5. D/Logistics
2B076. D/Medical Services
1D4040 Hqs7. D/Personnel
6N208. D/Security
6S179. D/Training and Education
936 CoC

10.

11. DDA/MS
Attn:

12.

13.

14.

15.

1 - 9: PLEASE PROVIDE THE EO/DDA WITH YOUR RESPONSES (INCLUDING ANY NEGATIVE RESPONSES) BY COB 26 APRIL 1984 IN ORDER THAT A CONSOLIDATED REPLY MAY BE PREPARED.

George

Att: Memo for Multiple Addrees fm O/Compt, dtd 30 Mar 1984, Subj: ADP Acquisition Policies (DDA 84-0953)

CC:

OS REGISTRY

4/4/84

4/4

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* DD/A Registry
21-0953

60 MAR 1984

MEMORANDUM FOR: Deputy Director for Administration
Deputy Director for Intelligence
Deputy Director for Operations
Deputy Director for Science and Technology
Administrative Officer, DCI Area

FROM: Daniel A. Childs, Jr.
Comptroller

SUBJECT: ADP Acquisition Policies (A/IUO)

1. During their review of the fiscal year 1984 budget, the House and Senate Appropriations Committees became concerned about the effectiveness of certain practices used in the acquisition of automatic data processing (ADP) equipment in the Department of Defense and Intelligence Community. As a result of their concern, they included the following recommendations in their 1984 budget appropriation report (see attachment A):

- a. All ADP equipment is to be purchased outright, unless a lower cost method of acquisition is available.
- b. Acquisition of ADP equipment is to be accomplished through direct competition of interested vendors, unless alternative procedures are warranted by a "national exigency to support a time-sensitive program of the highest national priority."
- c. A comprehensive audit of all ADP equipment is to be performed to develop an equipment inventory, and to determine equipment for which continued lease or installment purchase is no longer economical.
- d. A comprehensive training and advisory program is to be implemented to ensure that ADP contracting officers have sufficient expertise to protect the Government's interests.
- e. A program is to be initiated to buy out all ADP equipment not owned.
- f. No exceptions are to be made from competitive acquisition or outright purchase without the express approval of senior Agency ADP management. "Exceptions are not to be justified by lack of necessary procurement funds or time-sensitivity."

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OS REGISTRY
4/4/84

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2. With respect to the Intelligence Community, the committees requested a report be prepared by each Community member on the impact of the recommendations. We participated in an Intelligence Community appeal for an exemption from a preliminary version of the recommendations (see attachment B), and made a direct appeal of our own, but the appeals were rejected. Congress then directed the Agency (see attachment C) to submit a report by 1 July 1984 reviewing existing and proposed ADP systems in light of the recommendations. We will submit, if necessary, a report on 1 July, but we also plan to (1) submit another Agency appeal directly to the Appropriations Committees seeking a general exemption from the recommendations, and (2) participate in a second Community appeal. To prepare these appeals and the report, if required, we will need support from your components. [redacted]

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3. First, we need information from components on the costs of buying out ADP equipment now rented, leased, or under any kind of installment purchase plan. Please submit this information on the forms provided (attachment D). We will use your information to perform a comparative economic analysis and identify any equipment for which a buy-out would be cost-effective. Because we will not include word processing equipment (for example, the Wang Alliance system) and we are setting a \$50,000 purchase price cut-off for equipment to be reported, only a small number of components should be involved (see attachment D for more information). [redacted]

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4. Second, we need your assessment of what harm these recommendations will do to your program. We especially want to hear from NPIC and ODP on the impact of a policy precluding leases and installment purchases, and from OL on the implications of drastically limiting sole source procurements. All components are encouraged to comment on any aspect of the recommendations, however. [redacted]

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5. Third, we will need a response from OL on the requirements for and feasibility of an enhanced training program in ADP procurement for contracting officers. [redacted]

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6. Finally, the Agency must ensure that an inventory of its ADP equipment is available. The maintenance of such an inventory is an ODP responsibility (see HR [redacted]), but each office must review its own inventory of ADP equipment and be sure that ODP has up-to-date information. [redacted]

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7. We would like your responses by 1 May 1984. At that time, we will prepare our Agency appeal with the goal of obtaining a general exemption from the Congressional guidelines. We subsequently will prepare the detailed impact report that Congress requested only if our appeal fails. [redacted]

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[redacted]
Daniel A. Childs, Jr.

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Attachments:

- A. 1984 Conference on DoD Appropriations (Excerpts)
- B. Memo, HAC Recommendations on ADP Acquisition
(Compt 83-1122)
- C. Classified Annex Conference Committee Report (Excerpts)
- D. ADP Equipment Inventory Forms and Notes

Attachment A

MAKING APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1984

NOVEMBER 15, 1983.—Ordered to be printed

Mr. ADDABBO, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 4185]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 4185) making appropriations for the Department of Defense for the fiscal year ending September 30, 1984, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered S. 9, 10, 12, 16, 22, 24, 31, 32, 38, 44, 47, 48, 51, 56, 58, 59, 62, 76, 78, 82, 84, 87, 95, 96, 100, 108, 113, 116, 117, 120, 121, 127, 128, 140, 144, 147, 162, 164, 165, 166, 171, 195, 204, 209, 210, 212, and 213.

That the House recede from its disagreement to the amendments of the Senate numbered 13, 14, 18, 19, 20, 23, 25, 26, 27, 28, 29, 33, 34, 35, 36, 40, 41, 43, 49, 52, 54, 60, 63, 66, 68, 79, 81, 83, 89, 94, 97, 98, 99, 102, 104, 114, 123, 126, 129, 131, 132, 135, 154, 155, 159, 160, 174, 175, 177, 182, 187, and 188, and agree to the same.

Amendment numbered 7:

That the House recede from its disagreement to the amendment of the Senate numbered 7, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert \$1,361,150,000; and the Senate agree to the same.

Amendment numbered 11:

That the House recede from its disagreement to the amendment of the Senate numbered 11, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert \$1,882,980,000; and the Senate agree to the same.

27-4730

(1)

	Budget	House	Senate	Conference
Art/technician mix.....	65,600	32,650	65,900	45,780
Average strength adjustment.....	1,250,830	1,250,830	1,275,430	1,250,830
All other items.....	257,185	257,185	257,185	257,185
Total, National Guard personnel Army.....	1,517,100	1,537,950	1,577,500	1,552,920

NATIONAL GUARD PERSONNEL, AIR FORCE

Amendment No. 12: Appropriates \$539,100,000 as proposed by the House instead of \$604,400,000 as proposed by the Senate.

The conference agreement on items addressed by either the House or Senate is as follows:

	(in thousands of dollars)			
	Budget	House	Senate	Conference
VNA.....	12,573	8,173	8,173	8,173
Fiscal year 1954 pay raise.....			15,300	
All other items.....	530,527	530,527	530,527	530,527
Total, National Guard personnel, Air Force.....	553,500	558,100	604,400	593,100

TITLE III—OPERATION AND MAINTENANCE

The following items addressed by the conferees apply to more than one operation and maintenance appropriation of the Department of Defense:

APPROPRIATION BY BUDGET ACTIVITIES

The authorization conference recommended O&M authorization levels at the budget activity within each appropriation but specified that the Department of Defense should retain certain flexibilities for transfers. The Appropriations Bill as passed the House recommended specific budget activity amounts within each appropriation while the Senate version recommended appropriation at the O&M account level as historically has been the case.

The conferees agree that appropriation at the budget activity level would unnecessarily inhibit the required flexibility in the Department of Defense for executing a complex operating budget during the course of the fiscal year. As a result, the conferees agree to appropriate at the account level rather than by specific budget activity. The conferees have worked diligently to ensure that each of the individual items being addressed in the conference are within the authorized limits.

ADP equipment acquisition

Both the House and the Senate criticized the management of ADP equipment acquisition in DOD. The House recommended a re-

duction of \$680,000,000 in the operation and maintenance accounts and provided \$150,000,000 for establishment of a special fund to buy ADP equipment currently being leased.

The conferees agree to a reduction of \$150,000,000 to the operation and maintenance accounts to reflect savings from increased competition and reduced leasing, and to provide \$150,000,000 to the Defense Industrial Fund to buy out existing leases as recommended by the House. The Conferees recognize that the revolving fund allowance is sufficient to begin a modest buy-out program. It is expected that the fiscal 1955 request will include additional funding to accelerate the purchase of leased ADP equipment where it is cost efficient to do so. As a means to replenish the revolving fund, the Department may wish to use an amortization schedule to annually reimburse the Defense Industrial Fund for a portion of the purchase value of the ADP equipment. This formula should assure the buy-out of most ADP equipment within five years.

The Department is expected to adhere to the following ADP management procedures:

1. All acquisition of ADP components will be purchased outright, unless cognizant ADP and contracting officials can justify a method of acquisition and financing that will produce the lowest total overall cost to the Government.

2. Consistent with longstanding guidance from the Congress, all acquisition of ADP equipment in DOD will be done in a manner that will achieve lowest total overall costs to the government; normally this will be accomplished through competition, unless warranted by a national exigency to support a time-sensitive program of the highest national priority; acquisition is not to be considered competitive solely on the basis of inclusion on the GSA ADP schedule.

3. A comprehensive audit of all ADP equipment in DOD will be performed to ensure that DOD is not continuing to pay rent on equipment already owned, to determine accrued purchase credits on existing leased systems, and to form an inventory baseline so that ADP equipment excess to requirements in one activity can be transferred to another activity with an existing deficiency, provided that doing so does not perpetuate obsolescence. Leased ADP equipment that is obsolete will not be purchased if replacement is planned within two years and resources have already been identified in the Five Year Defense Plan.

4. A comprehensive and immediate training and advisory program is to be implemented to ensure that DOD contracting officers have sufficient ADP expertise to protect that Government's interest and to better understand internally developed ADP requirements in order to perform the most effective acquisitions.

5. A program is to be initiated to provide for the economic buyout of existing ADP equipment in use by DOD but not owned by DOD. By April 1, 1954, the Defense Department will submit to the Congress an action plan for implementing and resourcing this initiative.

6. Finally, no exceptions are to be made for competitive acquisition or outright purchase except with the specific case-by-case approval of the component Senior Information Resource Management (IRM) officials or their designees. These exceptions, however, are

not to be justified by lack of necessary procurement funds or time-sensitivity. The exceptions will be reported to Military Department Senior ADP officials (OSD for Defense Agencies) on a quarterly basis. The department's Senior ADP Officials will be prepared to justify exceptions to the Congress when requested.

Stock fund accounting change

Both the House and the Senate directed DOD to record obligations at the time customer orders are placed against the stock fund. However, the House directed implementation on September 1, 1984, while the Senate directed implementation prior to the end of the fiscal year. Conferees agree that the Department should implement this accounting change prior to the end of the fiscal year as directed by the Senate.

Industrial plant equipment

The conferees agree to permit the Department of Defense to budget for industrial plant equipment in the customer operation and maintenance accounts as recommended by the Senate, and agree to provide a total of \$414,500,000 instead of \$364,500,000 as recommended by the House and \$564,500,000 as recommended by the Senate.

The conferees fully support the modernization of the industrial plants of the Department of Defense. However, the many layers of bureaucracy between these industrial activities and the Congress have provided poor justification for such an important and expensive program. A significantly better job must be done by the Department of Defense in fiscal year 1985 of supporting the request for these funds. Since DOD has testified that the individual industrial activities each have a plan and are free to allocate these resources based upon the critical needs of that individual activity, in conjunction with submission of the fiscal year 1985 budget request the Department will present the plan for each activity identifying major equipment problem areas; expected productivity improvements from a strengthened equipment replacement and improvement program; funding levels for fiscal years 1983, 1984, and 1985; and the estimated funding requirement to modernize industrial plant equipment at each activity over a ten year period starting in fiscal year 1985. The conferees agree that funds provided for fiscal year 1984 are to be managed and expended by the industrial activity without further review of higher authority.

Spare and repair parts procurement management

The conferees agree that management of spare and repair parts procurement in the Department of Defense needs to be strengthened, and agree to provide \$15,000,000 for 700 additional man-years. However, the conferees agree to allocate this amount equally across the military departments rather than only to the Air Force as recommended by the Senate. The conferees also agree that this increase is to be used to strengthen supply system procurement management at the inventory control points in the supply systems of each military service. The increase being provided by the confer-



Washington, D.C. 20505

Attachment B

7 NOV 1983

MEMORANDUM FOR: Chairman, Information Handling Committee

FROM: Daniel A. Childs, Jr.
Comptroller

SUBJECT: House Appropriations Committee (HAC) Recommendations on
ADP Acquisition (U)

Six recommendations on ADP acquisition were enunciated by the HAC in the unclassified report accompanying the fiscal year 1984 Defense Appropriation Bill. Though their applicability to CIA is still somewhat unclear, and we feel strongly that the Agency should and will be excluded from some of the provisions of the report, we have made a preliminary assessment of their impact. (U)

1. Beginning in fiscal year 1984, all ADP components are to be purchased outright rather than leased. (U)

Agency mainframe computer systems are generally procured under installment purchase plans or lease arrangements. Use of installment purchase plans (specifically annual payment plans) is typically required because funding limitations generally preclude outright purchase. The Office of Data Processing (ODP) uses this method. Alternatively, lease is preferred when the ADP equipment is estimated to have a limited systems life due, for example, to changing technology. The National Photographic Interpretation Center (NPIC) leases many of its Univac mainframes. FY 1984 and FY 1985 budgets were based on the continuation of installment purchase plans and lease agreements and the use of these approaches for planned new acquisitions. HAC strictures precluding plans other than purchase would severely disrupt these FY 1984 and FY 1985 funding profiles. A detailed study would be required to estimate additional funding requirements so that installed and new equipment could be procured through outright purchase only, but it appears that at least an additional \$40 million would be needed in 1984. Without these additional funds, critical planned acquisitions

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would have to be postponed. Funding over the next several years would also have to be increased to meet purchase requirements for new capacity. (Savings--basically interest--would be realized only gradually).

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In our experience, lease arrangements are, in certain circumstances, in the best interest of the government. When judiciously used, leasing can provide important flexibility to program managers. It can reduce the risk of technical obsolescence and provide a mechanism for meeting short-term requirements. Moreover, leasing can reduce the risk of absorbing new technology. It can provide the mechanism whereby new technology can be fully evaluated in an operational environment before significant financial commitments are made. In short, leasing is preferred when ADP equipment is expected to have a limited systems life. Existing regulations require that procurement options be evaluated with respect to achieving the lowest overall evaluated cost over the systems life. This approach is conceptually sound. Outright purchase cannot, a priori, be assumed the most advantageous approach. A detailed cost analysis is always required.

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2. Acquisition of ADP equipment is to be accomplished through direct competition of interested vendors.

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ADP acquisition is accomplished according to existing procurement regulations. Competition is clearly the preferred approach. Sole source procurements, however, are permitted under special circumstances outlined in the regulations. In the Agency arena, security and operational concerns also may require that competition be limited in certain situations. The Agency should not be forced to undertake competition for competition's sake when it is clear that only one vendor can satisfy an Agency requirement. Currently, a board of senior Agency officers, the Agency Contract Review Board (ACRB), approves all procurements over \$500,000. The ACRB is advisory to the Director of Logistics, who is ultimately responsible for the integrity and effectiveness of the Agency procurement system. We believe these procedures provide the appropriate checks and balances on the procurement process. The \$500,000 threshold is a reasonable one for review. Existing procurement regulations provide an appropriate balance between the government's desire to encourage competition and the requirement to acquire ADP equipment and services that meet both substantive needs and appropriate resource management criteria.

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3. A comprehensive audit of all ADP equipment is to be performed.

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Headquarters Regulation ADP Management and Administration, requires the Office of Data Processing to maintain an Agency-wide ADP equipment inventory. Due to resource constraints, ODP has not always been able to keep this inventory current. A project to update this inventory has been established and is currently underway.

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ODP also manages the Agency excess ADP equipment reutilization program. All excess ADP equipment is identified to ODP, and ODP attempts to arrange for its reutilization. Equipment that has no alternative Agency use is turned over to the Office of Logistics for transfer to the General Services Administration. The Agency excess ADP equipment program has been working very effectively for many years now. Finally, with the assistance of the

cognizant contracting officer, most components regularly review their local equipment inventories for cost saving opportunities through lease-to-purchase conversion. We would support renewed emphasis on this responsibility. [redacted]

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4. A comprehensive training and advisory program is to be implemented to insure that contracting officers have sufficient ADP expertise to protect the government's interest. [redacted]

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We would support an enhanced level of training for Agency contracting officers. The current problem with training relates to the pressing procurement workload. If the workload per person were reduced by obtaining additional positions, a more comprehensive training program could be implemented. [redacted]

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5. A program is to be initiated to buy out all existing ADP equipment not owned. [redacted]

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As discussed earlier, further study will be required to estimate the funding implications of a buy-out. We have substantial equipment under annual payment plans (APP's--essentially installment payment plans) and under lease. Our preliminary estimate is that we would require at least \$40 million in FY 1984 alone. It should be emphasized, however, that for some of this equipment a buy-out may not be advantageous, due to the equipment having a limited systems life. [redacted]

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6. No exceptions are to be made for competitive acquisition or outright purchase except with the specific case-by-case approval of senior ADP officials. [redacted]

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As indicated earlier, we believe our current procedures are already in substantial compliance with this recommendation. [redacted]

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[redacted]
Daniel A. Childs, Jr.

SUBJECT: House Appropriations Committee (HAC) Recommendations on
ADP Acquisition

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Attachment D

General Notes on ADP Equipment Inventory Forms (A, B & C)

1. All general purpose ADP equipment that will be under a CIA lease or installment purchase plan during at least some part of the last three quarters of FY 1985 should be reported. This includes equipment under the following procurement plans: lease, lease to ownership, lease with option to purchase, annual or alternate payment, or other type of installment purchase plan.
2. Do not report:
 - Special purpose or embedded systems.
 - Equipment that will be Government-owned prior to 1 January 1985, even if formerly leased or under an installment purchase plan.
 - Word processing equipment (including Wang Alliance systems).
 - Miscellaneous equipment with a 1 January 1985 purchase price of less than \$50,000. However, if several similar items are procured under the same terms, report this equipment if the aggregate purchase price is equal to or exceeds \$50,000. (For example, report as one line item 25 identical terminals that are leased even if they may be purchased for \$2,000 each on 1 January 1985).
3. Equipment may be clustered into systems or groups of items and reported on one line if 1) the equipment is being procured under the same plan, and 2) the equipment has the same system life. (For example, a string of leased disk drives, all of which will be released in 12 months, may be reported as a single line item).
4. Based on the data from forms A and B, the Comptroller's Office will perform an economic analysis to determine what equipment it will be economically advantageous to purchase outright on 1 January 1985 in lieu of continued lease or installment purchase. If there are reasons other than lack of funding why this equipment should not be purchased, even if economically advantageous, describe these reasons on the forms in the "Comments" column.
5. On Form C describe the impact of a prohibition on lease and installment purchase for major systems entering the inventory after FY85 (that is, equipment not reported on forms A and B).
6. Duplicate forms as necessary. Forms should be classified, as appropriate.

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A: ___ of ___

Form A: Leased ADP Equipment Inventory*

Component:

Contact:

Ext.: (Secure)

<u>Equipment (1)</u>	<u>FY 84 Lease Cost (\$/Month) (2)</u>	<u>FY 84 Maintenance Cost (\$/Month) (3)</u>	<u>Estimated Purchase Price (\$) (4)</u>	<u>Systems Life (Months) (5)</u>	<u>Comments (6)</u>
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*See "General Notes on ADP Equipment Inventory Forms," and attached "Notes on Form A" for footnotes (1) - (5)

Notes on Form A, "Leased ADP Equipment Inventory*"

1. Equipment may be clustered in a logical grouping if lease arrangements and system life are identical. Provide serial numbers of equipment in clusters if practical (see "General Notes" for type of equipment to be included).
2. Include monthly maintenance cost in the lease cost, if maintenance is priced separately from the lease. Indicate equipment being procured under a lease-to-ownership plan (LTOP) in the "Comments" column. For LTOP equipment, indicate in the "Comments" column the number and amount of monthly payments due past 1 January 1985 until the equipment reverts to Government-ownership.
3. Monthly maintenance cost data are required for lease versus purchase analysis to be performed by O/Compt.
4. Provide the estimated purchase price as of 1 January 1985. Be sure to subtract any accumulated purchase option credits.
5. System life is the estimated number of months beyond 1 January 1985 equipment will be in productive use (used in lease versus purchase analysis performed by O/Compt).
6. Provide any comments on data as appropriate. Also comment if you believe there is a rationale for not purchasing equipment, assuming purchase is more cost-effective and funds are available. Also indicate if equipment is being procured under a lease-to-ownership (LTOP) plan. Note the number and amount of monthly payments beyond 1 January 1985 until equipment reverts to Government-ownership.

*Keyed to footnotes on Form A.

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Component: _____ Contact: _____ Ext.: _____ (Secure)

	Estimated Purchase	FY 85 Payment	Outstanding Payments (\$) (4)					
Equipment (1)	Price (\$) (2)	(1 Jan 85)(3)	FY 85(5)	FY 86	FY 87	FY 88	FY 89	Comments

* See "General Notes on ADP Equipment Inventory Forms," and attached "Notes on Form B" for footnotes (1) - (5)

****Installment purchase includes annual and alternate payment plans (APP's).**

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Notes on Form B, (Inventory of ADP Equipment Under
an Installment Purchase Plan)*

1. Equipment may be clustered in logical groupings if plan and system life are identical. Provide serial numbers of equipment in the cluster if practicable. See "General Notes" for types of equipment to be included.
2. Estimated purchase price as of 1 January 1985--generally interest since last payment plus outstanding principal.
3. Payment, if any, owed between 1 October 1984 and 31 December 1984.
4. Payments on installment purchase plan owed in indicated fiscal year. For FY 1985, see note 5 below.
5. FY 1985 payment, if any, owed between 1 January 1985 and 30 September 1985.
6. Provide any comments on data as appropriate. Also comment if you believe there is a rationale for not purchasing equipment outright, assuming funds are available.

*Keyed to footnotes.

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Form C: Outyear Procurement Plans

Component:

Contact:

Ext.: (Secure)

Major System

Installation
Date

Proposed
Procurement Plan

Impact of
Outright Purchase

*Provide funding impact estimate if known.

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